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United Nations

United Nations Human Settlements Programme

Financial report and audited financial statements

for the biennium ended 31 December 2003
and

Report of the Board of Auditors

General Assembly
Official Records
Fifty-ninth Session
Supplement No. 5H (A/59/5/Add.8)

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Note

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Letters of transmittal

31 March 2004

I have the honour to transmit the financial report and accounts of the United Nations Human Settlements Programme, including associated trust funds and other related accounts for the biennium 2002-2003 ended 31 December 2003, which I hereby approve.

The financial statements of the United Nations Human Settlements Programme for the biennium 2002-2003 ended 31 December 2003 have been prepared in accordance with financial rule 106.10 of the United Nations.

Copies of these statements are made available to both the Advisory Committee on Administrative and Budgetary Questions and the Board of Auditors.

(*Signed*) Anna Kajumulo **Tibaijuka**
Executive Director
United Nations Human Settlements Programme

Chairman, Board of Auditors
United Nations Headquarters
New York

9 July 2004

I have the honour to transmit to you the financial statements of the United Nations Human Settlements Programme, including associated trust funds and other related accounts, for the biennium 2002-2003 ended 31 December 2003, which were submitted by the Executive Director. These statements have been examined by the Board of Auditors.

In addition, I have the honour to present the report of the Board of Auditors with respect to the above accounts, including an audit opinion thereon.

(*Signed*) Shauket A. **Fakie**
Auditor-General of the Republic of South Africa
and Chairman, United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York

Chapter I

Financial report for the biennium 2002-2003 ended 31 December 2003

A. Introduction

1. The Executive Director has the honour to submit herewith the financial report, together with the financial statements of the United Nations Human Settlements Programme, including associated trust funds and other related accounts, for the biennium 2002-2003 ended 31 December 2003. The accounts consist of 3 statements supported by 6 schedules and notes to the financial statements. The accounts were submitted to the Board of Auditors on 31 March 2004.

2. As prescribed by financial regulation 1.2, the financial period of the Organization consist of two consecutive calendar years, the first one of which shall be an even year. The Board of Auditors conducted an interim audit on these accounts and did not report to the Advisory Committee on Administrative and Budgetary Questions any situations that should be brought to the attention of Member States.

3. Comparative figures for the biennium 2000-2001 have been reflected in the financial statements, as appropriate. The length of the financial report has been kept to the minimum in accordance with United Nations guidelines.

4. The financial statements and schedules, as well as the notes thereon, are an integral part of the financial report.

B. Level of appropriations, allocations/allotments, expenditures and commitments

5. The Commission on Human Settlements, in its decision 18/6 of 16 February 2001, approved for the biennium 2002-2003 expenditures for the Programme of $23,998,900 and further authorized the Executive Director, subject to the availability of additional non-earmarked resources, to make commitments above the level of $23,998,900 and up to $31,693,900.

6. The United Nations Human Settlements Programme received non-earmarked pledges and contributions amounting to $14,305,758 (see schedule 2.1) during the biennium. In addition, the Programme received $37,782,190 in earmarked contributions (ibid.) during the biennium. The Executive Director accepted these contributions for purposes consistent with those of the Programme under her delegated authority in line with the provisions in the special annex for United Nations Habitat and Human Settlements Foundation to the Financial Regulations and Rules of the United Nations, ST/SGB/UNHHSF Financial Rules/3 (1978), rule 307.5.

7. **Total allocations/allotments and expenditures for the biennium 2002-2003 ended 31 December 2003 were as follows (in United States dollars):**

	Allocations	*Expenditures*	*Unexpended allocations*
Project activities	46 675 782	37 395 693	9 280 089
Programme and programme support cost activities	12 089 300	10 731 030	1 358 270
Total	**58 765 082**	**48 126 723**	**10 638 359**

Chapter II
Report of the Board of Auditors

Summary

The Board of Auditors has reviewed the United Nations Human Settlements Programme (UN-Habitat), formerly the United Nations Centre for Human Settlements (Habitat), at its headquarters in Nairobi and at its four offices. The Board also audited the financial statements of UN-Habitat for the biennium ended 31 December 2003. UN-Habitat manages 32 funds, of which only 22 are included in its financial statements.

The Board's main findings are as follows:

(a) Only $175,000 of the invalid unliquidated obligations of $775,000 (that remained outstanding as of 31 December 2002) was cancelled in 2003, leaving an outstanding balance of $600,000 or 5 per cent of the total unliquidated obligations of $11,827,356 as at 31 December 2003;

(b) Operationally completed projects had not been financially closed or completed within 12 months of the date of their operational completion, as required in the UN-Habitat Technical Cooperation Manual and the United Nations Development Programme (UNDP) Programming Manual;

(c) Adequate assurance on the accuracy and completeness of non-expendable property was not obtained owing to, inter alia, non-conduct of physical inventory and non-reconciliation of property records in some regional offices;

(d) Of 24 contracts reviewed, seven (29 per cent) did not comply with the requirement that a formal evaluation of the work performed be conducted every six months. Furthermore, the database maintained for consultants at the Regional Office for Asia and the Pacific did not include information on the consultants' performance on previous assignments;

A list of the Board's main recommendations is included in paragraph 10 below.

A. Introduction

1. The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Human Settlements Programme (UN-Habitat) for the biennium 2002-2003 in accordance with General Assembly resolution 74 (I) of 7 December 1946. The audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations and the annex thereto, the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and the International Standards on Auditing. Those standards require that the Board plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the biennium ended 31 December 2003 had been incurred for the purposes approved by the General Assembly; whether income and expenditures had been properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the Programme presented fairly the financial position as at 31 December 2003. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered it necessary to form an opinion on the financial statements.

3. In addition to the audit of accounts and financial transactions, the Board carried out reviews under United Nations financial regulation 7.5. The reviews primarily focused on the efficiency of financial procedures, the internal financial controls and, in general, the administration and management of UN-Habitat.

4. The audit was carried out at UN-Habitat headquarters in Nairobi and at its offices at Geneva (Liaison and Information Office), in Fukuoka, Japan (Regional Office for Asia and the Pacific), Rio de Janeiro (Regional Office for Latin America and the Caribbean), and Nairobi (Regional Office for Africa and the Arab States).

5. The Board continued its practice of reporting the results of specific audits through management letters containing audit findings and recommendations to the Administration. This practice allowed an ongoing dialogue with the Administration.

6. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were discussed with the Administration, whose views have been appropriately reflected in the report.

7. A summary of the Board's main recommendations is contained in paragraph 10 below. The detailed findings and recommendations are reported in paragraphs 15 to 82.

1. Previous recommendations not fully implemented

Biennium ended 31 December 1999

8. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has reviewed the measures taken by the

Administration to implement the recommendations made in its report for the biennium ended 31 December 1999.[1] There are no significant outstanding matters.

Biennium ended 31 December 2001

9. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measure taken by the Administration to implement the recommendations made in its report for the biennium ended 31 December 2001.[2] Details of action taken and the comments of the Board are included in the report and have been summarized in the annex to the present chapter. The review showed that out of a total of six recommendations, one (16.67 per cent) was implemented, two (33.33) were under implementation and three (50 per cent) could not be fully implemented as they were overtaken by events.

2. Recommendations

10. **The Board recommends that the United Nations Human Settlements Programme:**

(a) **In conjunction with the United Nations Office at Nairobi, continue to review outstanding obligations on a timely basis, and to cancel those that are no longer valid (para. 23);**

(b) **Consider regularizing its practice of financial closure at the end of the subsequent year after the operational closure of projects and coordinate with project partners for the financial closure of projects (para. 36);**

(c) **Take immediate action to ensure the accuracy, completeness and proper control of non-expendable property in compliance with appropriate directives (para. 52);**

(d) **Periodically evaluate the work of consultants, in particular when their services are being considered for extension, and include in the database relevant information pertaining to consultants' previous contracts such as the outputs required in the terms of reference, date of output submission and performance evaluation to be used as reference for any subsequent assignment (para. 60).**

11. The Board's other recommendations appear in paragraphs 26, 39, 44, 56, 63, 65, 73, 78, and 81.

3. Background

12. In its resolution 56/206 of 21 December 2001 the General Assembly decided to transform the Commission on Human Settlements and its secretariat, the United Nations Centre for Human Settlements (Habitat), including the United Nations Habitat and Human Settlements Foundation, with effect from 1 January 2002, into the United Nations Human Settlements Programme, to be known as UN-Habitat.

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[1] *Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5H* (A/55/5/Add.8), chap. II.

[2] Ibid., *Fifty-seventh Session, Supplement No. 5H* (A/57/5/Add.8), chap. II.

13. The United Nations Human Settlements Programme manages 32 funds, of which only 22 are included in its financial statements. United Nations Headquarters in New York reflects in its accounts the remaining 10 funds.

14. The functions relating to human resources management and other staff-related services, financial operations, general support services, including contracts and procurement, common conference services, library and information facilities had been transferred to the United Nations Office at Nairobi with effect from 1 January 1996.

B. Financial issues

1. Financial overview

15. The Board performed an analysis of UN-Habitat's financial position as at 31 December 2003 and the results of its operations and cash flows for the period then ended. Some key financial data are set out in the table below (in millions of United States dollars):

Table 1
Key financial data for the bienniums 2000-2001 and 2002-2003

	2000-2001[a]	*2002-2003*
Total income	27 664	54 459
Total expenditures	20 957	45 461
Total assets	17 918	35 952
Total liabilities	8 392	16 574
Reserves and fund balances	9 526	19 379
Cumulative surplus	5 468	8 434
Major accounts		
Voluntary contributions	25 130	52 088
Cash and term deposits, investments and cash pool	16 697	34 615
Unliquidated obligations	4 892	11 827

[a] 2000-2001 comparative figures have been restated to conform to the current presentation.

16 In the biennium 2002-2003, total income of $54.46 million exceeded total expenditure of $45.46 million by $9 million before prior-period adjustments. The increase in income of $26.80 million (96.9 per cent) over income reported in the biennium 2000-2001 was due mainly to the increase in contributions by $26.96 million (107.3 per cent).

17. The total expenditure of $45.46 million increased by $24.50 million (116.9 per cent) compared with the total expenditures of $20.96 million in the biennium 2000-2001. In the biennium 2002-2003, the total contributions of $52.09 million from Governments and public donors fully covered the total expenditure of $45.46 million.

18. Total assets increased by $18.03 million (100.6 per cent), from $17.92 million in 2000-2001 to $35.95 million in 2002-2003. The net increase is attributable to the increase in cash and term deposits, from $16.70 million to $34.61 million.

19. The increase in total liabilities of $8.18 million (97.5 per cent), from $8.39 million in 2000-2001 to $16.57 million in 2002-2003, was due largely to the increase in unliquidated obligations from $4.89 million to $11.83 million.

2. United Nations system accounting standards

20. The Board assessed the extent to which the financial statements of UN-Habitat for the biennium 2002-2003 conformed to the United Nations system accounting standards. The review indicated that the financial statements were consistent with the standards, except for the doubtful validity of unliquidated obligations amounting to $600,000 owing to the failure of UN-Habitat to review the individual accounts and cancel those that are no longer valid, as provided in paragraph 40 of the United Nations system accounting standards, as discussed below.

21. The Board, in its interim audit in April 2003, noted that unliquidated obligations amounting to $775,000 as at 31 December 2002 may no longer be valid and should therefore be cancelled, pursuant to paragraph 40 of the United Nations system accounting standards. The Board then recommended that UN-Habitat, in conjunction with the United Nations Office at Nairobi, review the unliquidated obligations and cancel those that are no longer valid. In its final audit in May 2004, the Board followed up the implementation of its recommendation and noted that only $175,000 was cancelled in 2003, leaving an outstanding balance of $600,000 or 5 per cent of total unliquidated obligations of $11,827,356 as at 31 December 2003. The Board is concerned of the doubtful validity of unliquidated obligations amounting to $600,000.

22. The Administration explained that these obligations were not closed in the Integrated Management Information System (IMIS) because all funds of UN-Habitat, which fall under a type of technical cooperation obligations, were not included in the batch processed by IMIS that automatically liquidates obligations that are no longer valid. Following discussion between the United Nations Office at Nairobi and United Nations Headquarters, the batch was expected to be functional by the end of 2004. The Administration assured the Board that programme management officers were continuously reminded of the need to cancel all obligations that are no longer valid and that, following the Board's recommendation, it had reviewed and closed the 2000-2001 unliquidated obligations accordingly.

23. **The Board recommends that UN-Habitat, in conjunction with the United Nations Office at Nairobi, continue to review outstanding obligations on a timely basis, and to cancel those that are no longer valid.**

3. Presentation and disclosure of financial statements

Notes and disclosures

24. The closing instructions of the Director, Office of Programme Planning, Budget and Accounts, dated 17 November 2003, required the disclosure of: (a) a detailed breakdown of all sources of miscellaneous income, and (b) in the case of non-expendable property, total acquisitions, whether procured locally or by

Headquarters or received from other offices/missions, total disposition classifying them into write-offs, sales, donations or transfers to other offices/missions, and total adjustments and explanations provided as to the reasons for the changes.

25. The Board noted that the breakdown of all sources of miscellaneous income of $604,817 was not disclosed; information on the amount of non-expendable property sold and donated was not indicated; and explanations as to the reasons for adjustments in the amount of $9,650 was not disclosed.

26. **The Board recommends that UN-Habitat disclose, in conjunction with the United Nations Office at Nairobi, the breakdown of all sources of miscellaneous income and the amount of non-expendable property sold and donated with explanation as to reasons for adjustments.**

27. The Administration informed the Board that the United Nations Office at Nairobi would seek clarification from United Nations Headquarters on the status of their requests for information to support the regular budget reports. Historically, the United Nations Office at Nairobi has taken these as internal requirements rather than as indicators of external reporting requirements.

4. Write-off of losses of cash, receivables and property

28. For the biennium 2002-2003, the Administration informed the Board that there was no write-off of cash, receivables or property.

5. Ex gratia payments

29. The Administration informed the Board that no ex gratia payments were made during the biennium 2002-2003.

C. Management issues

1. Programme management

30. For the biennium 2002-2003, UN-Habitat headquarters and its regional offices implemented 250 projects, with a budget or appropriation of $46,715,782, composed of 47 non-earmarked projects with a budget of $5,449,699 and 203 earmarked projects with a budget of $41,266,083. Total expenditures for the biennium was $37,395,693, consisting of $4,713,065 for non-earmarked projects and $32,682,628 for earmarked projects. These projects were implemented by UN-Habitat funded by multilateral, bilateral and other donors.

Financial completion of operationally closed projects

31. At the UN-Habitat headquarters in Nairobi, the Board noted that none of the 14 operationally completed projects with a total cost of $5.11 million, which remained outstanding for more than 12 months from the date of operational completion, had been financially completed as at 31 December 2003. The projects remained financially open for 15 to 49 months after the date they were operationally closed.

32. At the regional offices: (a) the Regional Office for Asia and the Pacific in Fukuoka — four projects (out of a sample of 18 operationally completed projects) with total cost of $0.76 million were still open 12 months after the time they were

operationally completed; (b) the Regional Office for Africa and the Arab States in Nairobi — all 12 operationally completed projects with total cost of $10.20 million were still financially open 12 months after they had been operationally completed; and (c) the Regional Office for Latin America and the Caribbean in Rio de Janeiro — 20 projects (out of 56 operationally closed projects) with total cost of $5.56 million were still in the process of final revision.

33. In its previous reports, the Board recommended that the Administration expedite the financial closing of all operationally completed projects within 12 months of the date of operational completion, in compliance with the UN-Habitat Technical Cooperation Manual and the UNDP Programming Manual, to ensure that expenditures are charged only to active project accounts.

34. The Administration commented that projects are closed financially at the end of the subsequent year, inter alia, to allow introduction of all potential savings, in view of expectations for further funding or time extension and because of non-closure of the related projects by UNDP or other implementing partners. The Administration explained that financial closure is subject to some transactions that were still expected in the project accounts, such as receipt of the appropriate documentation from the implementing partners. Expenditure reports, however, are monitored on a regular basis to ensure that no direct expenditures are charged to operationally closed projects (unless these expenditures are directly related to the project such as late inter-office vouchers and separation charges for staff).

35. The Administration informed the Board that it would continue to financially close, where feasible, all projects within 12 months of operational completion in coordination with its implementing partners. In particular, the Regional Office for Latin America and the Caribbean completed the final revisions for the financial closure of all relevant projects by the end of 2003. Final revisions have been sent to UN-Habitat headquarters and/or UNDP field offices for approval. By May 2004, there were only 10 final budget revisions pending UNDP's signature and the Regional Office is following this up to complete all pending closures within 2004.

36. **The Board recommends that the Administration consider regularizing its practice of financial closure at the end of the subsequent year after the operational closure of projects. The Board further recommends that the Administration coordinate with project partners for the financial closure of projects.**

Maintenance of complete and organized project folders

37. In 36 project files of project management officers reviewed at the UN-Habitat headquarters, 31 had no progress/status reports, 17 had no project delivery reports and one had no revised budget. In 18 project files reviewed at the Regional Office for Africa and the Arab States, 11 had no project accomplishment reports, 10 had no approved final budget revision, five had no signed agreements or contracts, four had no revised budget, another four had no miscellaneous obligating documents, one had no approved budget and another one had no project document.

38. The Administration informed the Board that all files were available at UN-Habitat but divided between the offices of the human settlements advisers and the programme management officers. The human settlements advisers maintained the

detailed files on the substantive aspects of programme implementation, while the programme management officers kept those related to finance and administration.

39. **The Administration agreed with the Board's recommendation that it ensure a complete and organized project documentation and filing/archiving system.**

40. The Administration assured the Board that it would be creating specific files for all projects, indicating all available files and their location (human settlements advisers office, programme management office and archives). As at May 2004, the Administration was implementing the recommendation as part of the overall review of UN-Habitat's archiving system.

Programme evaluation

41. The Board, in its interim audit in October/November 2002, reviewed the individual files of 14 projects managed by the Regional Office for Asia and the Pacific, with total budgets ranging from $0.06 million to $20.37 million and noted that: (a) in 10 projects (71 per cent) there were no clear performance indicators to objectively assess progress against the level of project expenditures or whether programme/project activities were undertaken on schedule and according to work plan; (b) in eight projects (57 per cent), the target dates for deliverables were not indicated; (c) in seven projects (50 per cent) the schedule of tripartite monitoring reviews was not indicated and copies of the detailed work plans were not retained by programme officers; and (d) in three projects (21 per cent) tripartite and other technical evaluations reported that the outputs were unsatisfactory, or progress was poor owing, inter alia, to delayed recruitment of relevant experts or slow recruitment of staff, and there were no schedules as to when the major works to be performed were to be carried out and the expected outputs were not specified.

42. Following the Board's recommendation, in June 2003, the Administration issued a manual for project and programme cycle management, which provides a standard framework for all project documents.

2. Asset management

Transfer of property records

43. The Board noted that transfer of non-expendable property between end-users was not promptly adjusted in the property records owing to the delay by UN-Habitat in informing the United Nations Office at Nairobi as to property movement.

44. **The Administration agreed with the Board's recommendation that UN-Habitat inform the United Nations Office at Nairobi of movements or transfers of property in a timely manner in order to facilitate the recording of adjustments in the property records.**

Non-expendable property

45. According to established procedures (IC/UNON/2001/08), all offices away from headquarters are required to prepare an inventory of all non-expendable property and attractive items on a half-yearly basis. Such inventory is to be submitted to the Procurement, Travel and Shipping Section of the United Nations

Office at Nairobi by the end of June and December. The inventory reports are consolidated in the inventory at UN-Habitat headquarters.

46. Two regional offices, the Regional Offices for Latin America and the Caribbean and for Asia and the Pacific, did not submit their inventory reports as at 31 December 2003, resulting in non-inclusion of their non-expendable property in the UN-Habitat inventory report as at 31 December 2003. The Administration explained that it sent reminders to all offices to submit their inventory reports on a biannual basis. At the ROAP, in particular, some project management units were not able to submit inventory reports and, for those units that submitted reports, some were not in accordance with the required format. The Administration also explained that inventory reports were not submitted regularly because the project management units found it difficult to determine the correct exchange rate for certain items that were purchased some years ago.

47. The UN-Habitat inventory report as at 31 December 2003 did not also include non-expendable property for headquarters in the amount of $106,400 for the biennium. The Administration informed the Board that the non-expendable property system did not capture all acquisitions pertaining to non-expendable property.

48. The Administration informed the Board that the non-expendable property system is being reviewed to make it more efficient and that the United Nations Office at Nairobi is continually reminding regional offices to submit their inventory reports on time. The Administration assured the Board that the necessary adjustments resulting from reports submitted after the financial period would be reflected in the subsequent reporting period.

Property records

49. The Board noted that the Regional Office for Africa and the Arab States did not maintain property records nor did it conduct physical inventory and reconciliation of relevant records for non-expendable property. Furthermore, for its 38 ongoing projects, the Office submitted only four inventory reports for 2002, and those submitted were not in conformity with the prescribed form.

50. The Administration informed the Board that an inventory of all equipment procured through the various projects implemented by the Regional Office was being conducted; all updated inventories are forwarded to Contracts and Procurement Section for record-keeping; and the transfer and/or disposal of equipment is processed through the Property Survey Board. The Administration assured the Board that the chief technical advisers and national project directors would be reminded on a regular basis of these requirements and that copies of project inventories received from the field would be sent to the United Nations Office at Nairobi (as has been the practice in the past) for reconciliation with its records.

Asset tracking system

51. In its test-check of the existence of property (per inventory report as at 30 June 2003) at the Regional Office for Latin America and the Caribbean, the Board noted that 44 items listed in the inventory report under the custody of one staff member could not be verified. Moreover, 38 items of furniture and equipment found in the custody of the same staff member did not reconcile with the inventory report. A

reconciliation of the items was not possible because they were not marked or coded for identification.

52. **The Board recommends that the Administration, in conjunction with the United Nations Office at Nairobi, take immediate action to ensure the accuracy, completeness and proper control of non-expendable equipment in compliance with its directives.**

53. The Administration informed the Board that efforts are being undertaken to ensure that an accurate inventory is being maintained and submitted in a timely fashion.

3. Human resources management

Medical certificate requirement

54. Administrative instruction ST/AI/1999/7 requires that, before commencing work, a consultant who is expected to work in any office of the Organization shall be required to submit a statement of good health and to take full responsibility for the accuracy of that statement, including confirmation that he or she has been informed regarding inoculations required for the country or countries to which travel is authorized.

55. At headquarters, none of the 24 contracts examined by the Board complied with the requirement in the administrative instruction. At the Regional Office for Asia and the Pacific, two out of 10 special service agreements examined likewise did not comply with the requirement. The contracts required the consultant to travel from his/her home country to another country where the project is located. The Board is concerned that the timely delivery of expected outputs may be hindered because of health reasons.

56. **The Administration agreed with the Board's recommendation that it ensure, in conjunction with the United Nations Office at Nairobi, full compliance regarding medical certificates as required by administrative instruction ST/AI/1999/7.**

Performance evaluation

57. Administrative instruction ST/AI/1999/7 also requires that performance of all consultants be evaluated and that a summary rating be recorded in the central roster maintained by the Office of Human Resources Management as a reference for consideration of future consultant contracts. No single task and consultant contract should exceed a period of six months without a formal evaluation of the work performed. If goals have not been met satisfactorily, no further contracts would be granted to the consultant.

58. In its review of 24 contracts, the Board noted that 7 contracts (29 per cent) did not comply with the requirement that a formal evaluation of the work performed should be conducted every six months. The Board is concerned that without the evaluation of outputs (prior to the granting of another contract) the quality of the work performed had not been considered in fixing the consultant's remuneration and in extending his or her services.

59. The Board also noted that the database maintained for consultants at the Regional Office for Asia and the Pacific did not include information on the consultant's performance in previous assignments, which would be useful in evaluating the consultant for a new or subsequent assignment.

60. **The Board recommends that the Administration (a) periodically evaluate the work of consultants, in particular when their services are being considered for extension; and (b) include in the database relevant information pertaining to consultants' previous contracts such as the outputs required in the terms of reference, date of output submission and performance evaluation to be used as reference for any subsequent assignment.**

61. The Administration informed the Board that for consultants working longer than six months, payment schedules are linked to specific outputs, which are evaluated before payments are effected. The enhanced IMIS, which has been in place since 2003, does not allow for payments to be made without registering the performance rating.

Signing of contracts prior to engagement

62. Administrative instruction ST/AI/296 requires that no individual may commence work as a consultant until the contract or agreement has been duly approved and signed on behalf of both UN-Habitat and the consultant. In its review of 24 contracts, the Board noted that 19 contracts (79 per cent) were signed and approved by one or both of the contracting parties after the commencement of the contract, while 3 (12 per cent) were not signed by the consultant/individual contractor.

63. **The Administration agreed with the Board's recommendation that it ensure, in conjunction with the United Nations Office at Nairobi, that contracts for consultants and individual contractors are signed by representatives of both contracting parties prior to the commencement of the engagement as required by administrative instruction ST/AI/296, and to avoid ex post facto approval of contracts.**

Staff training

64. The Board noted that there was no formal training needs assessment at UN-Habitat, nor was there a formal evaluation/assessment of the impact of training on the staff and the organization.

65. **The Administration agreed with the Board's recommendation to coordinate with the United Nations Office at Nairobi in identifying the training needs of staff through training needs assessment and to determine the impact of training on the staff and the organization.**

66. The Administration informed the Board that a training needs assessment has been carried out in coordination with the United Nations Office at Nairobi. Furthermore, an assessment of the impact of training on the staff and the organization as a whole could only be carried out subject to the availability of funds.

4. Travel

67. Administrative instruction ST/AI/257 requires staff on official travel to or from Headquarters to submit travel reimbursement claims within two weeks after completion of travel. Travel claims must be accompanied with the original travel authorization form, ticket stubs and all receipts for transportation and excess baggage expenses, as well as receipts for other expenses for which reimbursement is claimed. In addition, administrative instruction ST/AI/2000/20 requires that recovery of travel advances through payroll deduction shall be initiated if a staff member fails to submit a duly completed travel claim, together with the supporting documentation, within two calendar weeks after completion of travel.

68. At the Regional Office for Latin America and the Caribbean, the Board noted that in 37 (53 per cent) out of 70 travel claims reviewed, liquidation of advances was beyond the two-week period, ranging from over 15 to 60 days, and 32 (46 per cent) travel claims lacked the required reporting documentation such as ticket stubs and receipts.

69. At UN-Habitat headquarters, the Board noted that in 36 travel advances reviewed, 7 (19 per cent) travel claims were submitted beyond the two-calendar week requirement. The late submission of travel claims after the return date ranged from 20 to 60 days.

70. The Board also noted that as at 31 December 2003, long-outstanding travel advances amounted to $59,202, consisting of $21,432 in outstanding advances to staff members at United Nations Headquarters and $37,770 in travel advances to a staff member of UN-Habitat who lost her baggage, including supporting documents, and had subsequently failed to submit a travel claim. The travel advances have been outstanding from 7 to over 24 months.

71. The Administration informed the Board that an extension of up to 60 days is permitted in order to give staff members additional time to complete their travel claims. Thereafter, failure to account for the advance would lead to its recovery from the staff member's salary without prior notice.

72. The Administration also informed the Board that they would take initial action to recover advances from staff members at United Nations Headquarters, and that they have commenced recovery in February 2004 of the full advance from the UN-Habitat staff member who failed to respond to several reminders.

73. **The Administration agreed with the Board's recommendation to enforce, in coordination with the United Nations Office at Nairobi, the requirement that staff on official travel file their travel claims with the required supporting documentation within two weeks after completion of their travel and take action to recover outstanding advances in the event of non-compliance.**

74. The Administration informed the Board that processing of travel claims at the Regional Office for Latin America and the Caribbean had been streamlined since mid-July 2003 when the task was fully delegated to the office. As at March 2004, the whole process has been improved, and it now takes approximately three weeks after receipt of pertinent documentation to settle travel claims.

5. Information and communications technology

Implementation of the Integrated Management Information System

75. The Regional Office for Africa and the Arab States records project allotments, pre-encumbrances and obligations in IMIS, while the United Nations Office at Nairobi records payments of obligations of the Regional Office, also using IMIS. The project status report as at 31 December 2002, containing, inter alia, allotment, expenditure and unencumbered balance of allotment, reflected negative balances in expenditures totalling $269,666 for 19 projects.

76. The Administration explained that due to the nature of these technical cooperation projects that run for more than one year, any unused project allotment at the end of one fiscal year could be rephased to the next year provided the technical cooperation projects are still active in January of that year. However, the current functionality of IMIS automatically closes any unused allotment at the end of the fiscal year and, therefore, expenditures in the succeeding year cannot be charged against the unused allotment of the prior fiscal year. As a temporary solution (workaround), pending the receipt of the approved funding document or allotment, IMIS allows the creation of allotments with zero balances in the next fiscal year if related allotments existed in the prior fiscal year. These allotments would be registered with negative balances in the project status report generated by IMIS if expenditures are charged against them.

77. The Board is concerned that the above procedure may result in project expenditures being incurred without allotments and that it will not provide an accurate picture of the actual financial status of the project.

78. **The Board recommends that the Administration implement adequate controls in the Integrated Management Information System (IMIS) to avoid the occurrence of over-obligations or overexpenditures in the implementation of technical cooperation projects and to reflect the actual financial status of projects in the IMIS-generated project status reports.**

6. Results-based budgeting

79. The mission of UN-Habitat is the provision of "adequate shelter for all" and "sustainable human settlements development". In line with this mission, and as a regional tool for the implementation of UN-Habitat programmes, the Regional Office for Latin America and the Caribbean has developed a results-based budgeting model for its subprogrammes I and II, as follows:

Table 2
Results-based budgeting model

Element	*Subprogramme I*	*Subprogramme II*
Objective	Improve the shelter conditions of the world's poor, particularly in developing countries	Improved urban governance at all levels to ensure sustainable urban development
Expected accomplishment	Slum upgrading policies	Acceptance of norms of urban governance
Target beneficiary	Low income families, government authorities at all levels (Central America)	Local authorities and central government agencies (Ecuador and Brazil)
Benefit to accrue to the end-user	Capacity to develop improved policies and strategies for the upgrading of settlements	Improved capacity to develop and apply norms and practices on urban governance
Quantitative or qualitative value of benefit	A number of countries (8) introducing new policies and strategies	A number of governments and local authorities (2) applying improved norms on transport, and settlements regularization and upgrading
Timetable	2003-2005 for ongoing programmes	2003-2005 for ongoing programmes
	For other benefits: based on impact of new policies	For other benefits: based on impact of application of new norms

80. The model itself attempts to present a logical framework, within which elements are identified in achieving and measuring desired results. It is to the credit of the Regional Office for Latin America and the Caribbean that it has strived to meet the criteria that outcomes should be specific, attainable, realistic and time-based. However, there is room for improvement in the areas of performance indicators and standards. For example, while under subprogramme I, the "Capacity to develop improved policies and strategies for the upgrading of settlements" already defines the parameters of the benefit accruing to the end-user, the lack of accompanying indicators of improvement does not make it a truly meaningful tool for programme management. Compounding the difficulty is the lack of benchmarks upon which standards of economy, efficiency and effectiveness are developed and formulated.

81. **The Administration agreed with the Board's recommendation that it develop results-based budgeting indicators.**

7. Cases of fraud and presumptive fraud

82. The Administration reported no cases of fraud and presumptive fraud to the Board during the biennium 2002-2003.

D. Acknowledgement

83. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended to its auditors by the Executive Director, her officers and members of their staff.

(*Signed*) Shauket A. **Fakie**
Auditor-General, Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President, Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the report.

Annex

Summary of status of implementation of recommendations for the biennium 2000-2001

Topic	*Implemented*	*Under implementation*	*Not implemented*	*Total*	*Reference to inclusion in current year report*
United Nations system accounting standards	Para. 20			1	
Programme management					
Operationally completed projects not financially closed	-	Para. 28		1	See Paras. 31-36
Project documentation	-	Para. 31		1	See Paras. 37-40
Fund utilization and financial reporting (UN-Habitat in northern Iraq)	-		Para. 37 (*overtaken by events*)	1	
Programme performance evaluation (UN-Habitat in northern Iraq)	-	-	Para. 42 (*overtaken by events*)	1	
Contract evaluation (UN-Habitat in northern Iraq)	-	-	Para. 45 (*overtaken by events*)	1	
Total					
Number	**1**	**2**	**3**	**6**	
Per cent	**16.67**	**33.33**	**50**	**100**	

Chapter III
Audit opinion

We have audited the accompanying financial statements of the United Nations Human Settlements Programme, comprising statements numbered I to III, schedules numbered 1.1 to 1.4, 2.1 and 3, and the supporting notes for the biennium ended 31 December 2003. The financial statements are the responsibility of the Executive Director. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency and conforming with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Executive Director, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position as at 31 December 2003 and the results of operations and cash flows for the period then ended in accordance with the stated accounting policies of the United Nations Human Settlements Programme, set out in note 2 to the financial statements, which were applied on a basis consistent with that of the preceding financial period.

Furthermore, in our opinion, the transactions of the United Nations Human Settlements Programme that have come to our notice or which we have tested as part of our audit have been, in all significant respects, in accordance with the Financial Regulations and Rules and legislative authority.

In accordance with article VII of the Financial Regulations, we have also issued a long-form report on our audit of the United Nations Human Settlements Programme financial statements.

(*Signed*) Shauket A. **Fakie**
Chairman, Auditor-General, Republic of South Africa

(*Signed*) Guillermo N. **Carague**
Chairman, Philippine Commission on Audit

(*Signed*) François **Logerot**
First President of the Court of Accounts of France

9 July 2004

Note: The members of the Board of Auditors have signed only the original English version of the audit opinion.

Chapter IV
Certification of the financial statements

31 March 2004

I certify that the appended financial statements of the United Nations Human Settlements Programme, including associated trust funds and other related accounts, numbered I to III are correct.

(*Signed*) Anna Kajumulo **Tibaijuka**
Executive Director
United Nations Human Settlements Programme

Chapter V
Financial statements for the biennium ended 31 December 2003

United Nations
Human Settlements Programme

Statement I

Combined statement of income and expenditure and changes in reserves and fund balances
for the biennium 2003-2003 ended 31 December 2003

(United States dollars)

Income	Reference	Foundation	Special Account for Programme Support Costs	All funds eliminations	Combined 2003	Combined 2001
Voluntary contributions	Schedule 2.1	52 087 947	-	-	52 087 947	25 129 961
Income from services rendered		-	2 665 438	(2 665 438)	-	-
Interest income		1 613 234	153 169	-	1 766 403	1 927 733
Miscellaneous income		538 170	66 647	-	604 817	606 481
Total income		54 239 351	2 885 254	(2 665 438)	54 459 167	27 664 175
Expenditure						
Programme activities	Schedule 1.1	9 336 170	-	-	9 336 170	5 710 045
Project activities: non-earmarked	Schedule 1.2	4 713 065	-	-	4 713 065	1 806 476
Earmarked	Schedule 1.3	32 682 628	-	(2 665 438)	30 017 190	12 240 805
Programme support costs	Schedule 1.4	-	1 394 860	-	1 394 860	1 199 236
Total expenditure		46 731 863	1 394 860	(2 665 438)	45 461 285	20 956 562
Excess of income over expenditure		7 507 488	1 490 394	-	8 997 882	6 707 613
Prior period adjustments		567 000	(15 490)	-	551 510	25 688
Net excess/(shortfall) of income over expenditure		8 074 488	1 474 904	-	9 549 392	6 733 301
Savings on, or cancellation of, prior period obligations	Note 2 (h) (viii)	156 966	11 557	-	168 523	163 833
Transfers from/(to) other funds		1 642 461	(1 486 461)	-	156 000	261 270
Refund to donors		(21 116)	-	-	(21 116)	-
Fund balances at beginning of period		8 265 343	-	-	8 265 343	1 106 939
Fund balances at end of period		18 118 142	-	-	18 118 142	8 265 343
Earmarked fund reserves		9 684 272	-	-	9 684 272	2 797 364
Fund balance		8 433 870	-	-	8 433 870	5 467 979
Reserves and fund balances		18 118 142	-	-	18 118 142	8 265 343

United Nations
Human Settlements Programme

Statement II

Combined statement of assets, liabilities, reserves and fund balances
as at 31 December 2003

(United States dollars)

Assets	Reference	Foundation	Special Account for Programme Support Costs	All funds eliminations	Combined 2003	Combined 2001
Cash and term deposits	Schedule 3	32 817 211	1 797 786	-	34 614 997	16 696 981
Contributions receivable	Schedule 2.1	153 699	-	-	153 699	597 281
Other accounts receivable	Note 6 (a)	685 297	-	-	685 297	435 755
Deferred charges	Note 6 (b)	498 391	-	-	498 391	188 162
Total assets		34 154 598	1 797 786	-	35 952 384	17 918 179
Liabilities						
Unliquidated obligations		11 754 006	73 350	-	11 827 356	4 892 424
Inter-fund payable	Note 7	1 490 718	1 457 045	-	2 947 763	620 575
Other accounts payable	Note 6 (c)	1 744 915	9 476	-	1 754 391	2 162 381
Deferred credits		44 154	-	-	44 154	716 878
Total liabilities		15 033 793	1 539 871	-	16 573 664	8 392 258
Reserves and fund balances						
Financial reserve	Note 2 (l)	1 002 663	-	-	1 002 663	1 002 663
Operational reserve	Note 2 (m)	-	257 915	-	257 915	257 915
Earmarked fund reserves		9 684 272	-	-	9 684 272	2 797 364
Cumulative surplus	Note 4	8 433 870	-	-	8 433 870	5 467 979
Total reserves and fund balances		19 120 805	257 915	-	19 378 720	9 525 921
Total liabilities, reserves and fund balances		34 154 598	1 797 786	-	35 952 384	17 918 179

United Nations
Human Settlements Programme

Statement III

Combined statement of cash flows as at 31 December 2003

(United States dollars)

Cash flows from operating activities	Foundation	Special Account for Programme Support Costs	All funds eliminations	Combined 2003	Combined 2001
Net excess of income over expenditure	8 074 488	1 474 904	-	9 549 392	6 733 301
Decrease/(increase) in contributions receivable	443 582	-	-	443 582	2 918 222
Decrease in provision for delays in collection of contributions	-	-	-	-	(220 474)
Decrease/(increase) in other accounts receivable	(252 049)	2 507	-	(249 542)	590 255
(Increase)/decrease deferred charges	(310 229)	-	-	(310 229)	(127 309)
Increase/(decrease) in unliquidated obligations	6 904 938	29 994	-	6 934 932	(1 386 523)
(Decrease)/increase in provision for uncollectable accounts	-	-	-	-	(739 073)
(Decrease)/increase in accounts payable	(266 759)	(141 231)	-	(407 990)	(792 376)
(Decrease)/increase in deferred credits	(672 724)	-	-	(672 724)	
Less: interest income	(1 613 234)	(153 169)	-	(1 766 403)	(1 927 733)
Net cash flow from operating activities	12 308 013	1 213 005	-	13 521 018	5 048 290
(Decrease)/increase in inter-fund payable/(receivable)	2 526 986	(199 798)	-	2 327 188	(5 049 263)
Plus: Interest income	1 613 234	153 169	-	1 766 403	1 927 733
Net cash flow from investing and financing activities	4 140 220	(46 629)	-	4 093 591	(3 121 530)
Cash flows from other sources					
Savings in prior period obligations	156 966	11 557	-	168 523	163 833
Transfers from United Nations Office at Nairobi and other funds	1 642 461	(1 486 461)	-	156 000	261 270
Refund to donors	(21 116)	-	-	(21 116)	-
Net cash flow from other sources	1 778 311	(1 474 904)	-	303 407	425 103
Net increase/(decrease) in cash and bank balances	18 226 544	(308 528)	-	17 918 016	2 351 863
Cash and bank balances at 1 January 2002	14 590 667	2 106 314	-	16 696 981	14 345 118
Cash and bank balances at 31 December 2003	32 817 211	1 797 786	-	34 614 997	16 696 981

United Nations
Human Settlements Programme

Schedule 1.1

Programme activities

Status of allocations for the biennium 2003-2003 ended 31 December 2003

(United States dollars)

Expenditure	Allocation	Disbursements	Unliquidated obligations	Total	Unencumbered balance
Experts, other personnel costs	7 501 500	6 965 407	106 702	7 072 109	429 391
Contracts	325 400	182 133	24 378	206 511	118 889
Travel	328 800	187 679	23 174	210 853	117 947
Acquisitions	300 700	183 537	45 167	228 704	71 996
Fellowships, grants and contributions	316 100	195 776	33 120	228 896	87 204
Other operating costs	1 736 200	1 196 581	192 516	1 389 097	347 103
Total	10 508 700	8 911 113	425 057	9 336 170	1 172 530
Executive direction and management	2 737 500	1 845 704	270 570	2 116 274	621 226
Other programme activities	7 771 200	7 065 409	154 487	7 219 896	551 304
Total	10 508 700	8 911 113	425 057	9 336 170	1 172 530

United Nations
Human Settlements Programme

Schedule 1.2

Non-earmarked project activities

Status of allocations for the biennium 2002-2003 ended 31 December 2003

(United States dollars)

Expenditure	Allocation	Disbursements	Unliquidated obligations	Total	Unencumbered balance
Experts, other personnel costs	2 992 234	2 350 512	304 070	2 654 582	337 652
Subcontracts	404 863	302 717	26 045	328 762	76 101
Travel	890 680	709 220	122 059	831 279	59 401
Acquisitions	100 997	47 073	20 186	53 671	47 326
Other operating costs	1 060 925	767 738	63 445	844 771	216 154
Total	5 449 699	4 177 260	535 805	4 713 065	736 634

United Nations
Human Settlements Programme

Schedule 1.3

Earmarked project activities

Status of allocations for the biennium 2003-2003 ended 31 December 2003

(United States dollars)

Expenditure	Allocation	Disbursements	Unliquidated obligations	Total	Unencumbered balance
Experts, other personnel costs	12 390 350	7 642 070	3 016 291	10 658 361	1 731 989
Subcontracts	13 018 133	6 310 665	3 980 477	10 291 142	2 726 991
Travel	2 414 825	1 496 227	450 530	1 946 757	468 068
Acquisitions	2 005 384	848 270	760 231	1 608 501	396 883
Fellowships	230 000	172 850	32 021	204 871	25 129
Other operating costs	6 424 567	3 361 135	1 946 423	5 307 558	1 117 009
Programme support costs	4 742 824	2 665 438	-	2 665 438	2 077 386
Total	41 226 083	22 496 655	10 185 973	32 682 628	8 543 455

United Nations
Human Settlements Programme

Schedule 1.4

Special Account for Programme Support Costs

Status of allocations
for the biennium 2002-2003 ended 31 December 2003

(United States dollars)

Expenditure	Allocation	Disbursements	Unliquidated obligations	Total	Unencumbered balance
Experts, other personnel costs	1 088 900	895 951	21 205	917 156	171 744
Contracts	112 000	75 254	36 746	112 000	-
Travel	16 000	-	2 799	2 799	13 201
Acquisitions	27 700	14 305	12 600	26 905	795
Other operating costs	336 000	336 000	-	336 000	-
Total	1 580 600	1 321 510	73 350	1 394 860	185 740

United Nations
Human Settlements Programme

Schedule 2.0

Combined status of contributions and unpaid pledges
as at 31 December 2003

(United States dollars)

Countries/organizations	Unpaid pledges as at 1 January 2002	Adjustments to prior years' pledges and receipts	Collections of prior pledges	Pledges for 2002-2003	Collections for future years	Collections of 2002-2003 pledges	Unpaid pledges for 2002-2003 and prior years
Non-earmarked contributions							
Algeria	-	-	-	20 000	-	20 000	-
Austria	64 123	(123)	64 000	142 200	-	142 200	-
Bangladesh	1 500	-	1 500	3 000	-	3 000	-
Barbados	-	-	-	6 000	-	6 000	-
Bhutan	3 050	(2 500)	-	650	-	-	1 200
Botswana		-	-	25 755	-	25 755	-
Brazil	20 000	(1 432)	18 568	-	-	-	-
Burkina Faso	2 795	-	2 795	14 744	-	14 744	-
Cameroon	22 417	-	22 417	45 275	-	45 275	-
Canada	-	-	-	102 174	-	102 174	-
Chile	10 000	-	10 000	6 000	-	5 000	1 000
Colombia	-	-	-	12 000	-	-	12 000
Czech Republic	-	-	-	170 518	-	170 518	-
Egypt	5 872	-	-	4 706	-	-	10 578
Fiji	-	-	-	2 950	-	2 950	-
Finland	-	-	-	864 792	-	864 792	-
France	-	-	-	303 496	-	303 496	-
Germany	-	-	-	183 870	-	183 870	-
Ghana	5 000	-	5 000	-	-	-	-
Greece	-	-	-	50 007	-	50 007	-
Guyana	1 029	(1 029)	-	-	-	-	-
India	-	-	-	162 686	-	162 686	-
Indonesia	-	42 000	42 000	-	-	-	-
Israel	-	-	-	7 500	10 000	7 500	-
Italy	-	-	-	1 027 000	-	1 027 000	-
Jamaica	-	-	-	5 000	-	5 000	-
Japan	-	-	-	428 000	-	428 000	-
Kenya	56 067	-	56 067	88 000	-	74 871	13 129
Luxembourg	48 841	(20)	48 821	97 737	-	97 737	-
Madagascar	15 980	-	-	-	-	-	15 980
Malaysia	-	-	-	5 000	-	5 000	-
Morocco	5 000	-	-	6 000	-	-	11 000
Netherlands	-	-	-	1 876 076	-	1 876 076	-
Nigeria	100 000	-	100 000	-	-	-	-
Norway	-	-	-	2 536 625	-	2 536 625	-
Pakistan	-	-	-	18 010	-	18 010	-
Philippines	-	1 678	1 678	2 471	-	2 470	-
Poland	-	-	-	20 000	-	20 000	-
Portugal	25 000	-	25 000	25 000	-	25 000	-
Republic of Korea	-	-	-	20 000	-	20 000	-
Romania	315	(315)	-	-	-	-	-
South Africa	-	-	-	8 928	-	8 928	-
Sri Lanka	5 000	-	5 000	30 000	-	30 000	-

Countries/organizations		Unpaid pledges as at 1 January 2002	Adjustments to prior years' pledges and receipts	Collections of prior pledges	Pledges for 2002-2003	Collections for future years	Collections of 2002-2003 pledges	Unpaid pledges for 2002-2003 and prior years
Sudan		6 329	(6 329)	-	-	-	-	-
Sweden		-	-	-	1 588 080	-	1 588 080	-
Trinidad and Tobago		-	-	-	3 000	-	3 000	-
Tunisia		-	-	-	697	-	-	697
Uganda		-	-	-	2 290	-	2 290	-
United Kingdom		-	-	-	3 090 132	-	3 090 132	-
United Republic of Tanzania		7 277	(988)	6 289	6 194	-	6 194	-
United States of America		-	-	-	1 250 000	-	1 250 000	-
Vanuatu		500	(500)	-	-	-	-	-
Venezuela		43 195	-	-	43 195	-	-	86 390
Yemen		4 025	(2 300)	-	-	-	-	1 725
Zambia		10 000	-	10 000	-	-	-	-
Zimbabwe		9 091	261	9 352	-	-	-	-
Total non-earmarked contributions		472 406	28 403	428 487	14 305 758	10 000	14 224 380	153 699
Earmarked contributions								
Governments	Reference							
Afghanistan		-	-	-	869 649	-	869 649	-
Austria		-	-	-	90 446	-	90 446	-
Belgium		-	-	-	2 196 538	-	2 196 538	-
Canada	Note 9a	-	-	-	2 306 250	-	2 306 250	-
China		-	-	-	260 419	-	260 419	-
European Union		-	-	-	5 662 591	-	5 662 591	-
Finland		-	88 773	-	428 242	-	517 015	-
France		-	-	-	46 606	-	46 606	-
Germany		-	-	-	1 199 000	-	1 199 000	-
Italy		-	-	-	1 252 587	-	1 252 587	-
Japan		-	-	-	592 269	-	592 269	-
Netherlands		-	-	-	9 076 397	-	9 076 397	-
Norway	Note 9a	-	-	-	2 119 310	-	2 119 310	-
Oman		-	-	-	100 000	-	100 000	-
Poland	Note 9a	-	-	-	3 000	-	3 000	-
Russian Federation		-	-	-	200 000	-	200 000	-
Sri Lanka		-	-	-	107 117	-	107 117	-
Spain		-	-	-	187 640	-	187 640	-
Sweden		-	-	-	1 886 349	-	1 886 349	-
Switzerland		-	-	-	12 017	-	12 017	-
United Kingdom		-	-	-	1 081 256	-	1 081 256	-
United States of America	Note 9b	-	607 948	607 948	500 000	-	500 000	-
Total Government contributions		-	696 721	607 948	30 177 684	-	30 286 457	-
Public donors								
Asian Development Bank (ADB)		-	-	-	20 000	-	20 000	-
Asian Disaster Reduction Centre (ADRC)		-	-	-	100 000	-	100 000	-
BASF AG		-	-	-	10 000	-	10 000	-
Building and Social Housing Foundation (BSHF)		-	-	-	7 311	-	7 311	-
City of Vienna		-	-	-	10 094	-	10 094	-

Countries/organizations	Unpaid pledges as at 1 January 2002	Adjustments to prior years' pledges and receipts	Collections of prior pledges	Pledges for 2002-2003	Collections for future years	Collections of 2002-2003 pledges	Unpaid pledges for 2002-2003 and prior years
Coalition of African Organisations for Food Security and Sustainable Development	-	-	-	15 432	-	15 432	-
Commonwealth Secretariat	-	-	-	10 000	-	10 000	-
Dubai Municipality	-	-	-	50 381	-	50 381	-
Far East Academy of Economics and Management	-	-	-	5 000	-	5 000	-
Ford Foundation	-	-	-	350 000	-	350 000	-
Forum Universal de las Culturas	-	-	-	109 599	-	109 599	-
Fukuoka International Exchange Foundation (FIEF) — Japan	-	-	-	1 998 911	-	1 998 911	-
Guangzhou Municipal People's Government	-	-	-	31 985	-	31 985	-
Human Settlement Management Institute (HSMI)	-	-	-	19 980	-	19 980	-
IBRD/World Bank	124 875	-	124 875	2 373 741	-	2 373 741	-
Japan Bank for International Cooperation (JBIC)	-	-	-	19 147	-	19 147	-
Japan Water Resources Association (JAWA)	-	-	-	119 985	-	119 985	-
Open Society Institute Zug Foundation (OSI)	-	-	-	97 975	-	97 975	-
Prefeitura da Cidade do Rio de Janeiro (PCRJ)	-	-	-	312 034	-	312 034	-
SEDU/PR	-	-	-	5 950	-	5 950	-
Programa de Apoio as Populacoes das favorecidas da reigiao Metropolitana do Rio de Janeiro (APD-RIO)	-	-	-	8 222	-	8 222	-
Sulabh International Social Service Organisation (SULABH)	-	-	-	25 000	-	25 000	-
Soroptimist International of Kagoshima	-	-	-	9 174	-	9 174	-
The Rockefeller Foundation	-	-	-	600 000	-	600 000	-
UNHQ – Secretariat – USA	-	-	-	350 124	-	350 124	-
UNEP	-	-	-	889 934	-	889 934	-
University College London, Development Planning Unit	-	-	-	26 110	-	26 110	-
United Nations International Strategy for Disaster Reduction (UN/ISDR)	-	-	-	28 416	-	28 416	-
Total public donors contributions	124 875	-	124 875	7 604 506	-	7 604 506	-
Total earmarked contributions	124 875	696 721	732 823	37 782 190	-	37 870 963	-
Total non-earmarked contributions	472 406	28 403	428 487	14 305 758	10 000	14 224 380	153 699
Total contributions	597 281	725 124	1 161 310	52 087 947	10 000	52 095 343	153 699

Ageing of contributions receivables	
Within one year	65 727
One year and over	87 972
Total	153 699

United Nations
Human Settlements Programme

Schedule 3

Convertible and non-convertible cash and term deposits
as at 31 December 2003

(United States dollars)

Convertible currency	Reference		2003	2001
Cash at banks and on hand			1 075 057	5 365 583
Term deposits	[a]		33 335 924	11 196 925
Total			34 410 981	16 562 508
Non-convertible currency		Currency amount	US$ equivalent	US$ equivalent
Indian rupees	[b]	8 794 268	193 281	123 488
United States dollars (restricted to use within the Russian Federation)			10 735	10 985
Total			204 016	134 473
Total convertible and non-convertible cash and term deposits			34 614 997	16 696 981
Investment pool for Offices Away from Headquarters (OAH)				
Book value			33 335 924	11 196 925
Market value			33 325 673	11 327 293
Unrealized (loss)/profit			(10 251)	130 368

[a] Investments system-wide are placed in a joint investment pool for all Offices away from Headquarters (OAH). Treasury, UNHQ, is solely responsible for the investment policy and participating offices are only responsible for their own cash flow/liquidity planning. Treasury, UNHQ, invests in different securities, with varying due dates and interest rates. Hence, it is not practical to indicate due dates and interest rates against the investment pool for OAH.

[b] The exchange rate used to determine the United States dollar equivalent is 1 USD = 45.5 Indian rupees.

Notes to the financial statements

Note 1
United Nations Human Settlements Programme and its objectives

(a) On 16 December 1974, the General Assembly adopted resolution 3327 (XXIX), by which it created the United Nations Habitat and Human Settlements Foundation. On 19 December 1977, the Assembly adopted resolution 32/162, by which it established a secretariat (the United Nations Centre for Human Settlements (Habitat)) and a Commission on Human Settlements.

(b) Subsequently, on 21 December 2001, the General Assembly adopted resolution 56/206, by which it transformed the United Nations Centre for Human Settlements, including the United Nations Habitat and Human Settlements Foundation, into the United Nations Human Settlements Programme and the Commission on Human Settlements into the Governing Council of the United Nations Human Settlements Programme with effect from 1 January 2002. By the same resolution the Assembly confirmed that the Executive Director of the United Nations Human Settlements Programme shall be responsible for the management of the United Nations Habitat and Human Settlements Foundation.

(c) The main objectives of the Programme are:

(i) To assist countries and regions in increasing and improving their own efforts to solve human settlements problems;

(ii) To promote greater international cooperation in order to increase the availability of resources of developing countries and regions;

(iii) To promote the integral concept of human settlements and a comprehensive approach to human settlements problems in all countries;

(iv) To strengthen cooperation and co-participation in this domain among all regions;

(v) To ensure the harmonization of human settlements programmes planned and carried out by the United Nations system; to coordinate human settlements activities in the United Nations system, to keep them under review and to assess their effectiveness at the inter-secretariat level;

(vi) To supplement the resources of the regions in formulating and implementing human settlement projects when required;

(vii) To serve as the focal point for a global exchange of information about human settlements and to initiate public information activities on human settlements in cooperation with the Department of Public Information of the United Nations Secretariat;

(viii) To promote collaboration with and involvement of the world scientific community concerned with human settlements.

Note 2
Summary of significant accounting policies

(a) The accounts of the United Nations Human Settlements Programme are maintained in accordance with the Financial Regulations of the United Nations as

adopted by the General Assembly, the Rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Management or the Controller, including the special annex of the financial rules of the United Nations Human Settlements Programme and specific decisions of the Governing Council. They also take fully into account the United Nations system accounting standards, as adopted by the Administrative Committee on Coordination. The Organization follows International Accounting Standard 1 on the disclosure of accounting policies, as modified and adopted by the United Nations System Chief Executives Board for Coordination as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions. Where fundamental accounting assumptions are followed in financial statements, the disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or that may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Organization's accounts are maintained on a fund accounting basis. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing double-entry group of accounts. Separate financial statements are prepared for each fund or for a group of funds of the same nature.

(c) The financial period of the Organization is a biennium consisting of two consecutive calendar years for all funds.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting. For voluntary contribution income, the policy set out in paragraph (h) (i) below applies.

(e) The accounts of the Organization are presented in United States dollars. Accounts maintained in other currencies are translated into United States dollars at the time of the transaction, at rates of exchange established by the Under-Secretary-General for Management. In respect of such currencies, the financial statements, prepared at such intervals as may be prescribed by the Controller under delegation of authority from the Under-Secretary-General for Management, shall reflect the cash, investments, unpaid pledges and current accounts receivable and payable in currencies other than the United States dollar, translated at the applicable United Nations rate of exchange in effect as at the date of the statement. In the event that

the application of an actual exchange rate at the date of the statement would provide a valuation materially different from the application of the Organization's rate of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Organization's financial statements are prepared on the historical cost basis of accounting and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The regular budget of the United Nations meets part of the costs of the secretariat of the United Nations Human Settlements Programme, formerly the United Nations Centre for Human Settlements, established under resolution 32/162 of 19 December 1977. Details of the expenditure may be found in the financial report and audited financial statements of the United Nations. They are not considered further in this report.

(h) Income:

(i) Voluntary contributions from Member States and other donors are recorded as income on the basis of a written commitment to pay monetary contributions at specified times during the current financial period;

(ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Organization to administer projects or other programmes on their behalf;

(iii) Allocations from other funds represent monies appropriated or designated from one fund for the transfer to and disbursement from another fund;

(iv) Income for services rendered includes reimbursements of salaries of staff members and other costs that are attributable to providing technical and administrative support to other organizations;

(v) Interest income includes all interest earned on deposits in various bank accounts and investment income earned on marketable securities and other negotiable instruments in the cash pool. All realized losses and net unrealized losses on short-term investments are offset against investment income;

(vi) Miscellaneous income includes refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, monies accepted for which no purpose was specified, uncashed cheques one year from their date of issuance, proceeds from the sale of surplus property and other sundry income;

(vii) Income relating to future financial periods is recorded as deferred income in the current financial period, as referred to in paragraph k (ii) below;

(viii) Savings from the liquidation of prior-period obligations relating to programme costs are credited directly to the fund balances. Savings relating to project costs are credited to the project.

(i) Expenditure:

(i) Expenditures are incurred against authorized allotments. Total expenditures reported include unliquidated obligations and disbursements;

(ii) Expenditures incurred for non-expendable property are charged to the budget of the period when acquired and are not capitalized. The inventory of such non-expendable property is maintained at the historical cost;

(iii) Expenditures for future financial periods are not charged to the current financial period but are recorded as deferred charges, as referred to in paragraph j (iii) and (iv) below.

(j) Assets:

(i) Cash and term deposits comprise funds held in demand-deposit accounts and interest-bearing bank deposits;

(ii) The United Nations Headquarters cash pool comprises participating funds' share of the cash and term deposits, short-term investments and accrual of investment income, all of which are managed in the pool. The investments in the pool are similar in nature. Income earned on the investments of the cash pool and the costs associated with the operation of these investments are allocated to participating funds. Share in the cash pool is reported separately in each of the participating funds' statements;

(iii) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(iv) For the purpose of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(v) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Organization. Acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is recorded in memorandum accounts and is disclosed in note 8 to the financial statements.

(k) Liabilities, reserves and fund balances:

(i) Operating and other types of reserves are included in the reserves and fund balances shown in the financial statements;

(ii) Deferred income includes pledged contributions for future periods and other income received but not yet earned;

(iii) The commitments of the Organization relating to prior, current and future financial periods are shown as unliquidated obligations. Current period obligations related to special accounts remain valid for 12 months following the end of the biennium to which they relate. Obligations for most technical

cooperation activities remain valid for 12 months after the end of each calendar year.

(l) Financial reserve. As stated in rule 311.2 (b) of the financial rules of the United Nations Habitat and Human Settlements Foundation, the purpose of the financial reserve is to guarantee the financial liquidity and integrity of the Foundation, to compensate for uneven cash flows and to meet such other similar requirements as may be decided upon by the Governing Council. The level of financial reserve is determined from time to time by the Governing Council, in accordance with paragraph 2 of Council resolution 2/2 of 4 April 1979, in which the Council authorized the Executive Director to set up the financial reserve in the amount of $281,600 United States dollars, covering the period from 1 January 1979 to 30 June 1980. The financial reserve was last adjusted in 1989 to its present level of $1,002,663, equivalent to 9.89 per cent of the total programme of work of the Foundation approved by the Commission for the biennium 1988-1989.

(m) Operational reserve. With regard to the special account for programme support costs and as stated in administrative instruction ST/AI/286, an operational reserve held at 20 per cent of the estimated annual programme support income is required to be held in a separate account at all times. This reserve is to protect against unforeseen shortfalls in delivery, inflation and currency adjustments or to liquidate legal obligations in case of the abrupt termination of activities financed from extrabudgetary resources.

(n) Earmarked fund reserve. Funds designated for specified project activities are not available for the non-earmarked project and programme expenditures of the Foundation.

(o) Contingencies. A provision to meet contingent liabilities for compensation payments under appendix D to the Staff Rules of the United Nations for the personnel financed from trust funds and the Foundation has been made and is calculated on the basis of 1 per cent of the net base pay. Furthermore, since July 2002, a provision calculated at 8 per cent of the net base salary is made at UN-Habitat and trust funds for end of service benefits.

(p) UN-Habitat is a member organization of the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded defined-benefit plan. The financial obligation of the Organization to the Fund consists of its mandated contribution at the rate established by the Assembly together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. As at the date of the current financial statements, the Assembly has not invoked this provision.

Note 3
Cash flow summary

Statement III is based on the indirect method of cash flow statements covered by International Accounting Standard 7.

Note 4
Reserves and fund balances

The surplus account of UN-Habitat represents savings in the liquidation of obligations for prior periods, contributions from Member States and other designated income.

Note 5
Combined statements

Combined statements I, II, and III in the present financial statements replicate combined statements IX, X and XI in the financial statements for the biennium 2000-2001 ended 31 December 2001. Comparative figures for 2001 have been reclassified, as disclosed in note 9 below, to conform to the current presentation.

Note 6
Statement II

(a) Accounts receivable

The following comparison of the accounts receivable appears in statement II as at 31 December 2003 and 2001(in United States dollars):

	2003	*2001*
Staff members	397 007	341 502
Other United Nations agencies	188 096	24 524
Others	94 423	14 417
Vendors	5 771	55 312
Other accounts receivable	685 297	435 755
Contributions receivable	153 699	597 281
Total	**838 996**	**1 033 036**

(b) Deferred charges

The totals below provide a comparison of the amounts shown in statement II as deferred charges, as at 31 December 2003 and 2001 (in United States dollars):

	2003	*2001*
Education grant advances	121 709	96 920
Other commitments against future years	376 681	91 242
Total	**498 391**	**188 162**

(c) Accounts payable

The following comparison of the accounts payable appears in statement II as at 31 December 2001 and 2001 (in United States dollars):

	2003	*2001*
Other United Nations agencies	1 332 939	1 628 819
Staff members	251 502	116 835
Vendors	117 087	336 826
Others	52 363	11 504
Governments	500	32 190
Specialized agencies	-	36 207
Total	**1 754 391**	**2 162 381**

Note 7
Inter-fund balances

The inter-fund accounts record transactions between the Programme, trust funds, other special accounts and the United Nations General Fund, which are settled on a periodic basis.

Note 8
Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Organization but is charged against the current appropriations when acquired. The following table shows the non-expendable property (in United States dollars):

	Total 2003	*Total 2001*
Opening balance	1 872 537	1 384 828
Additions	474 991	486 700
Adjustments	9 651	1 009
Ending balance	**2 357 179**	**1 872 537**

Note 9
Establishment of new trust funds

(a) In accordance with the Governing Council resolution 19/6, the UN-Habitat Water and Sanitation Trust Fund was initiated with contributions from Canada ($2,306,250), Norway ($1,495,744.43) and Poland ($3,000), which were received in December 2003.

(b) In accordance with the Governing Council resolution 19/18, the Special Human Settlements Programme for the Palestinian People was established with the initial contribution from the United States of America ($500,000), which was received in November 2003.

Note 10
Restatement of the biennium 2000-2001 comparatives

Combined statement of income and expenditure and changes in reserves and fund balances

(in United States dollars)

	Notes	*Foundation as reported in 2001*	*Eliminations*	*Foundation as restated in 2003*
Income				
Voluntary contributions	[a]	25 129 961	-	25 129 961
Interest income		1 927 733	-	1 927 733
Miscellaneous income		606 481	-	606 481
Gain/(loss) on exchange	[b]	(148 001)	148 001	-
Total income		**27 516 174**	**148 001**	**27 664 175**
Expenditure				
Programme activities		5 710 045	-	5 710 045
Project activities: Non-Earmarked		1 806 476	-	1 806 476
Earmarked	[b]	12 092 804	148 001	12 240 805
Programme support costs		1 199 236	-	1 199 236
Total expenditure		**20 808 561**	**148 001**	**20 956 562**
Excess of income over expenditure		6 707 613	-	6 707 613
Prior period adjustments		25 688	-	25 688
Net excess/(shortfall) of income over expenditure		6 733 301	-	6 733 301
Savings on, or cancellation of, prior period obligations		163 833	-	163 833
Transfers from/(to) other funds		261 270	-	261 270
Fund balances at beginning of period		1 106 939	-	1 106 939
Fund balances at end of period		**8 265 343**	**-**	**8 265 343**

Combined statement of assets, liabilities, reserves and fund balances

Assets				
Cash and term deposits	Schedule 3	16 696 981	-	16 696 981
Contributions receivable	[a]	597 281	-	597 281
Other accounts receivable		435 755	-	435 755
Deferred charges		188 162	-	188 162
Total assets		**17 918 179**	**-**	**17 918 179**

	Notes	*Foundation as reported in 2001*	*Eliminations*	*Foundation as restated in 2003*
Liabilities				
Unliquidated obligations		4 892 424	-	4 892 424
Inter-fund payable		620 575	-	620 575
Other accounts payable	Note 6 (c)	2 162 381	-	2 162 381
Deferred credits		716 878	-	716 878
Total liabilities		**8 392 258**		**8 392 258**
Reserves and fund balances				
Financial reserve		1 002 663	-	1 002 663
Operational reserve		257 915	-	257 915
Earmarked fund reserves		2 797 364	-	2 797 364
Cumulative surplus		5 467 979	-	5 467 979
Total reserves and fund balances		**9 525 921**	-	**9 525 921**
Total liabilities, reserves and fund balances		**17 918 179**	-	**17 918 179**

[b] Contributions	Income	Receivable
Contributions from Governments	16 793 439	472 406
Contributions from public donors	8 336 522	124 875
	25 129 961	**597 281**

[b] Loss on exchange now categorized under expenditures (operating expenses).